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Summary of the economic and social survey of Asia and the Pacific, 1992

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I. RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

1. The world economy was sluggish in 1992 and its future course uncertain. Recession, having first hit a number of industrialized countries in 1990, lingered on. Average output growth in the industrialized countries in 1992, still a low 1.5 per cent, improved over the 0.7 per cent growth in 1991. In that year, aggregate world output had declined by 0.6 per cent, marking the first contraction in world output in the post-war era.

2. An estimated 0.4 per cent world economic growth in 1992 thus reflected the weak growth impulse in the industrialized countries and continuing output contraction in Eastern Europe and the successor States of the former Soviet Union. The world economy was expected to perform better in 1993, with a growth rate projected at 2 per cent. The latest projection revised downwards those made earlier, as economic recovery in the industrialized countries appeared to be weak, a quick recovery of the economies in transition appeared less likely and peace and stability in the world appeared less secure in the face of numerous and diverse conflicts persisting around the world, contrary to expectations of a more peaceful world in the post-cold war era.

3. The sustained growth and expansion of the world economy during the period 1983-1989 helped many countries in the region of the Economic and Social Commission for Asia and the Pacific (ESCAP) to take advantage of new trade and investment opportunities. During the 1980s, the average rate of economic growth in the ESCAP region was higher than in any other region of the world. Although the initial years of the 1990s have been marked by recession, the region has succeeded in sustaining high growth performance based on the growing strength of domestic markets, intraregional trade and investment growth, and policies aimed at achieving stable growth.

4. How to maintain high and stable rates of economic growth and to accelerate such growth where it has been slow remains the basic economic issue for the ESCAP region. Economic growth is necessary for overcoming current problems, although it is not, by itself, sufficient. While a number of economies in the region have achieved high rates of growth, a large number of the economies in the ESCAP region have not been so successful. They continue to possess archaic economic structures, characterized by the domination of low-productivity economic activities in agriculture and services, little progress in modern industrial development, poor infrastructural bases and poor education and health standards. Widespread prevalence of poverty is the consequence. These countries contain a disproportionate share of the region's estimated total of 830 million poor people. How to eliminate or alleviate absolute poverty is therefore a serious concern in the region, since its persistence can release destabilizing forces that could arrest the path to further progress.

5. The ESCAP region shares global concern about the environment. Three types of critical environmental problems have been identified in the Asia and Pacific region: (a) land degradation and destruction of natural resources; (b) unsustainable environments in villages/human settlements caused by factors such as inadequate or inappropriate shelter, lack of water supplies and poor sanitation; and (c) pollution, including air and water pollution.

6. The causes of environmental degradation in the region may be attributed to both underdevelopment and development. In general, the region's huge population (which has doubled in the course of the past three decades and could double again in the next four decades at the current rate of growth), the consequent pressure on resources (especially with regard to food and agriculture), and inefficient patterns of urban and industrial growth, are held principally responsible.

7. National Governments will need to have international financial and technical support to tackle their environmental problems, in view of developing countries' limited financial and technical capabilities for solving such problems.

8. While facing these persistent problems of development and despite the recession in the world economy, developing economies of the ESCAP region continued to be resilient in the early years of the 1990s. Economic growth rate of the developing economies of the ESCAP region averaged 6.1 per cent in 1991. It is estimated that in 1992 the average gross domestic product (GDP) growth rate of the developing economies of the region will accelerate to 6.9 per cent. The trend is expected to continue, with a 7 per cent rate of growth projected for 1993. The growing strength of domestic demand, continued efficiency and competitiveness of exports, the market for which has become progressively diversified both within the region and outside, and the cumulative effects of domestic economic reforms geared to maintaining or restoring macroeconomic balance and providing incentives for trade and investment activities were the underlying factors contributing to the region's resilience.

9. However, the diverse background of the developing economies of the ESCAP region has been reflected in their economic performance in recent years. Economic growth in 1991-1992 remained strong in a number of the East and South-East Asian economies. The South Asian countries, with their huge populations and relatively low levels of development, have recently launched programmes of wide-ranging reforms with a view to accelerating the pace of their economic growth and development. Given domestic resource constraints and external factors governing their trade and investment financing opportunities, most of these countries have been slow to realize the hoped-for breakthrough. The situation, as in the case of India, has tended to worsen in the short term as reform and adjustment processes have taken wider hold.

10. The six Asian Republics of the former Soviet Union 1/ have been experiencing serious problems of transition from a long-lasting central planning regime to a market-oriented economic system, with losses of output, excessive inflation and high and rising unemployment; it is necessary to arrest and stabilize these tendencies to set these countries on a course of stable growth and development.

11. The small island economies of the Pacific, with their small size, lack of resources and infrastructure and a recent weakening of international support for their growth, development and welfare, are perhaps experiencing tightening rather than easing of the usual constraints on their growth and development. Some of the region's least developed countries have made determined efforts to improve their situation but their performance in most cases has remained poor,

with the exception of Maldives, which has registered double-digit rates of economic growth in recent years.

12. The international trade of the developing economies of the ESCAP region was buoyant in 1991-1992 despite the recession and slow-down in world trade and economic activity. The strong performance of the trade sector was the result, in many cases, of improvement in production efficiency, low rates of domestic inflation, wage increases enabling productivity to rise faster than real wages, diversification of markets and expansion and consolidation of policy reforms involving trade and investment regimes.

13. As stated above, a large number of economies in the ESCAP region remain weak and fragile after decades of development effort; this contrasts sharply with the general image of the region as the most economically dynamic and robust in the world. These economies have neither shared in the dynamism of the region's more successful economies nor attained a base strong enough to be able to absorb successfully the exogenous shocks to which they are frequently subjected. Thus they face both short- and long-term problems. As causal processes, the short- and long-term factors work to reinforce each other to keep these economies in a perpetual state of low performance and underdevelopment.

14. The nature of the problems faced by the disadvantaged countries of the region varies in both kind and intensity. Thirteen of the countries in the region are currently listed as least developed. By definition, they are the weakest both structurally and in their ability to perform and achieve. Four of these countries (Afghanistan, Bhutan, the Lao People's Democratic Republic and Nepal) suffer the additional disadvantage of being land-locked. Afghanistan and Cambodia remain the most distressed, both economically and politically. Six of the least developed countries, including Maldives, are small islands, scattered over a vast area. Smallness, remoteness, and the fact that their economies are wide open to international market influences add to the other weaknesses which they share with the rest of the least developed countries. The particular difficulties mentioned above are also shared with the other island economies of the Pacific.

15. The six Asian republics of the former Soviet Union, as they seek to effect changes in their economic system and expose their centrally planned and virtually closed economies to market forces, are facing difficulties that have surfaced recently in their most acute forms. The severance of the limited international links that they had traditionally maintained and the need to recast them on a completely new basis have made the task of adjustment difficult.

16. Among the social development problems facing the ESCAP region, that of the health of the population is one of the most significant. Good health is an integral component of socio-economic well-being. It is an essential requirement for the development and economic productivity of the individual, the community, the nation and ultimately the global family. Poor health, on the other hand, is constraining individual and societal development. By compromising the potential to lead a productive life, poor health perpetuates poverty and undermines human dignity.

17. Declining infant mortality rates, rising life expectancy and improvements in maternal and under-5 mortality are evidence that progress towards health for all is being made on many fronts in the ESCAP region. Certainly one of the salient achievements of the health-for-all strategy has thus far been the universal policy endorsement given to this aim. Health for all has been acknowledged as a step in the search for social justice and equity. Health, which has been recognized as a fundamental human right in the Constitution of the World Health Organization, resolutions of the World Health Assembly and various international proclamations, has assumed priority status on many national development agendas.

18. Nevertheless, much remains to be done for public health to enable all sections of the population to reap its benefits. Achievements in primary health care have enabled more people, but still not enough, to have better health. As they have better health and live longer, their health needs change and curative care considerations, often requiring more sophisticated technology and greater resources, take higher precedence. Governments are increasingly hard pressed to respond to these changes and additiona' needs, particularly in the face of structural adjustment requirements and ensuing conflicting priorities.

19. In addition to resource allocation considerations, the critical role of population growth within the context of the goals of economic development and health for all demands even greater attention. It is well documented that population growth impinges on access to safe water and sanitation, a major factor in determining infant mortality and life expectancy at birth. Population growth also exerts undue pressure on agricultural lands, and the exodus to urban areas in search of better economic opportunities often has adverse consequences for health. Frequent child-bearing and short birth intervals leave women effete and unable to attend to the needs of their ever-increasing families. Water resources for human, agricultural and industrial use are diminishing in general and cannot possibly meet the demands of ever-growing populations. In summary, the detrimental consequences of population growth lie at the heart of many health and human welfare problems.

20. Most countries in the ESCAP region have acknowledged the importance of this interaction and have taken steps to control their population growth through the promotion of integrated family planning and health programmes. But enough is not being done and integration efforts often leave much to be desired. For example, the implementation of separate vertical programmes for AIDS and family planning, as is the case in many countries, overlooks the intertwined nature of those issues and leads to duplication and the waste of scarce resources. In other cases, although priority may be given to family planning <u>per se</u>, in the absence of an adequately integrated approach, this may be at the expense of other sectors that have an important bearing on fertility determinants and ultimately on health and population growth.

21. Availability of resources sets a critical limit on what can be achieved in the health sector in the ESCAP region. Vast amounts of additional financing will be required to maintain an acceptable status quo and even more will be required to ensure subsequent improvements in health status and well-being. As committed as countries may be to realizing universal good health and social welfare, without adequate resources health-for-all goals will remain elusive.

II. EXPANSION OF INVESTMENT AND INTRAREGIONAL TRADE AS A VEHICLE FOR ENHANCING REGIONAL ECONOMIC COOPERATION AND DEVELOPMENT IN ASIA AND THE PACIFIC

22. This section of the report examines recent trends in trade and investment in Asia and the Pacific and assesses the contribution of the trade-investment nexus to a process of industrial restructuring leading to a virtuous circle of outward-oriented development in some parts of the region. In this context, constraints that have prevented the wider spread of such development amongst ESCAP developing economies are reviewed, with a view to evolving suggestions on specific directions that regional economic cooperation initiatives might take.

23. The global economy presents a mixed picture of growing integration and cooperation, on the one hand, and isolationism and conflict on the other. While the motivation for most of the ongoing integration initiatives has stemmed generally from the desire to reduce barriers to trade and to defuse trade tensions, which is perceived to be easier to achieve on a regional than on a global basis, two additional factors have contributed significantly to the process. One is the accelerated shift away from import-substituting strategies during the 1980s and the other is the dismantling of the command-economy structures that characterized most formerly centrally planned economies.

24. The move towards greater regional and subregional cooperation in Asia and the Pacific is not in any manner a defensive response to efforts at regional integration elsewhere in the world, although it may occasionally appear to be so. Rather, it is part of the current process of restructuring the economic order of the post-war world. However, it may be argued that the Asia and Pacific economies, both developed and developing, have failed to make full use of regional economic cooperation in the quest for growth characterized by a greater diffusion of its benefits across the region.

25. It is also contended that, given its own creditable growth performance, the region is in a position to insulate itself from the destabilizing influences of recession and trends elsewhere in the world. However, despite the immediate objective of regional cooperation as the safeguard of self-interest, it cannot be denied that the long-term solution for regional as well as global prosperity lies in multilateralism and the openness of economies. Therefore, self-sustained growth poles in the Asia and Pacific region and elsewhere that can together pull the world economy out of the recession in which it is currently engulfed need to be generated. Coordination of economic activities between decentralized units within individual poles of growth, with the objective of strengthening their expansionary impulses, could then be the most promising mechanism for fashioning sustainable recovery in the world system. In this setting, regional economic cooperation is viewed as the first stage of a two-tier movement towards global prosperity.

A. Regional links in trade and investment

26. The persisting competitiveness of several of the Asia and Pacific region's developing economies, which have maintained both a high level of economic growth and a reasonably good trade performance, has effected a rise in the share in world trade of the developing ESCAP region from slightly under 9 per cent in

1980 to about 15.5 per cent in 1991. While part of the dynamism may be ascribed to growing trade and investment linkages within the region, much credit lies in the generally flexible production structures and responsive policy environment in these economies which have enabled successful implementation of an export-led strategy of development. Thus, over the 16-year period 1975-1991, exports from the ESCAP region grew at 12.1 per cent per annum, while world exports expanded at 8.7 per cent per annum, so that the region has become its own most dynamic market, with the share of intra-ESCAP exports in ESCAP's export to world markets rising from 33.3 per cent in 1975 to 45.3 per cent in 1991. However, the current level of intraregional trade in Asia and the Pacific is, to some extent, a misleading indicator of interdependence within the region, since performance in different groups of economies and individual countries shows substantial variations.

27. Nevertheless, there has been a decline in the dominant role of the developed Asia and Pacific countries in the growth and trade of the region, while the benefits of the redressing of regional inequalities have largely gone to the newly industrializing economies (NIEs), the ASEAN-4 countries (mainly Malaysia and Thailand) and China. The dynamism of the region and its emergence as a growth pole in the world system is therefore based on the dynamism of two subregions, that is, the NIEs and ASEAN-4 countries, and the two major economies of Japan and China. Of these, the relationships between Japan and the NIEs, as well as that between the NIEs vis-à-vis the ASEAN-4, are in keeping with the "flying geese" growth pattern. As for South Asia, the Pacific Island economies, the least developed countries and the economies in transition which have yet to benefit from this virtuous circle, conscious policy interventions and region-wide cooperative efforts are required to stimulate growth in these economies.

28. The extent to which the links that have been forged through intraregional trade are being strengthened by investment flows within the region is also interesting. Although foreign direct investment (FDI) flows to developing economies as a whole declined from an average of 25 per cent between 1980 and 1985 to 17 per cent between 1986 and 1990, the absolute volume of FDI flows to the developing countries doubled between the first and second half of the 1980s. Interestingly, a large proportion of the increased FDI flows has been channelled to the developing Asia and Pacific economies and after 1986 the region became the largest recipient of FDI flows in the developing world. However, among the developing economies in the Asia and Pacific region, over 90 per cent of FDI flows has been concentrated in nine countries in East and South-East Asia: the four NIEs, the ASEAN-4 countries and China. Japan is the most important origin of FDI flows in the Asia and Pacific region, although in some of the developing economies the United States of America or the European Community (EC) has a more visible presence. Over the last decade, outward FDI to the region from NIEs has also increased significantly, notably in China.

29. The review of trends in foreign direct investment in the Asia and Pacific region reveals four significant characteristics. First, as is the case for trade, the dominant trend in investment is for intraregional flows to displace flows from and to the rest of the world, although this is less true in the case of the leading Asia-Pacific investor, Japan, which is strengthening its positions in the United States of America and the EC as well. Second, the major recipients of foreign investment from within and outside the region during the

1980s have been the NIEs and the more successful of the ASEAN-4 countries, indicating that economies which have a strong foothold in world markets and offer a conducive environment for foreign investment looking for new sites for world market-oriented production have an edge in attracting foreign investors. Third, as these economies have benefited from foreign investment, they themselves have become significant sources of capital flows and have become willing to enter those of the region's other developing economies which are creating an environment even more conducive to foreign investment. Lastly, there appears to be a nexus between trade and investment in the region, providing the basis for the "flying geese" pattern of export-led growth.

30. The recent upsurge in interest in evolving modalities for the expansion of investment and intra-Asia Pacific trade through cooperative endeavour is also a response to the development needs of the region; in a way, it reflects the particular difficulties that the region's developing economies are encountering in mobilizing resources for development and expanding the exports of traditional and new products to their principal markets. ESCAP developing countries have thus advocated the pursuit of common approaches to evolve economic security interests, which could shelter the region's smaller economies from external pressures while simultaneously serving as a useful complement to existing safeguards for multilateralism. In regard to foreign trade and investment, ESCAP has been the promoter of major cooperative initiatives to benefit the region's developing countries; however, most of these efforts have lacked region-wide support and their impact has therefore been rather modest.

B. The trade-investment nexus: a regional analysis

31. Although foreign investors in the region have mainly supplemented domestic production activities, there is enough evidence to indicate the significant role played by foreign transnationals in exports from the more dynamic developing economies of Asia and the Pacific. Host-economy survey data available for a limited number of economies shows, for example, that in the Republic of Korea the share of foreign firms in exports stood at around 35 per cent during the late 1970s but had advanced to almost 50 per cent by the mid-1980s, with Japanese firms accounting for a significant share of exports. In Singapore, these figures exceeded 70 per cent in the case of manufacturing exports, although in this case United States firms were the dominant exporters. In Taiwan Province of China, where again Japanese firms dominated, the share of exports in production by foreign affiliates averaged over 50 per cent.

32. Export growth is not confined to host countries; investing country exports are often stimulated as well, since transnationals are heavily involved in importing into host countries. In fact, intra-firm exports (from parent firms to affiliates) account for about 30 per cent of total exports and of manufactured exports of United States parent firms, as well as an equal share of total exports in the case of Japanese-controlled firms. Export/sales ratios in the ASEAN-4 economies also show that foreign transnationals often export more of their product than domestic firms. In Singapore, export/sales ratios were twice as high for foreign affiliates than for domestic firms until the 1980s, while in Thailand foreign-majority companies have larger export/sales ratios in most cases, although with a smaller differential. Data for investment in the Republic of Korea and Taiwan Province of China indicate a similar tendency.

This is highly consistent with the notion that one of the more important intangible assets possessed by transnationals is ready access to an extensive international marketing network, either internalized within the multinational itself or through other trading firms.

33. There are a number of dangers, however, in choosing to exploit the trade-investment nexus. First, the initial high dependence on foreign investment to obtain and expand a foothold in world markets may not lead to the generation of indigenous export capability. Second, this failure can prove damaging if in the search for low-cost locations foreign investors install their capacities in competing sites that have now become more favourable, because such relocation could induce further outflows of capital. Third, excessive reliance on intra-firm trade could mean the net foreign-exchange earning from a dependence on the investment-trade nexus could actually be low and even turn negative as the process of profit repatriation gathers momentum. Fourth, competition between nations to offer better terms to foreign investors could lead to a situation where the linkages with the domestic economy are minimal. And finally, if, in order to exploit the trade-investment nexus, countries liberalize their trade and investment regimes but fail to benefit from that nexus for other reasons, such liberalization could prove destabilizing.

34. In the context of the restructuring of the industrial sector, foreign investment is crucial for a number of reasons. First, oligopolistic conditions in the international market result in a high volume of subcontracted or intra-firm trade that sets obstacles for the independent entrant. Second, entry into certain markets requires access not merely to marketing networks but also to front-line innovations which are controlled by technological leaders through patents and other means. Third, since the restructuring process, especially when it is fashioned through trade liberalization, often results in a widening of the current account deficit, FDI helps to partially offset the balance-of-payments gap. Fourth, external creditors have greater confidence in increasing their exposure in a country selected by foreign investors as a site for world market-oriented production. Finally, where required, FDI brings with it the managerial expertise and basic resources required to generate those skills in the domestic environment.

35. As regards the sectoral structure of foreign investment, it is broadly true that there have been increasing and significant volumes of FDI flows into manufacturing in almost all developing economies in the region. However, even in economies where FDI inflows have been significant, it has not been the exclusive leader of the industrial restructuring process. Instead, FDI has played a catalytic but critical role which facilitated the restructuring that domestic policies sought to encourage. Country experiences also suggest that, although in general all the Asia and Pacific developing countries have, at some stage, adopted (or at least professed to have adopted) outward-orientation growth strategies, in each country the process has been shaped to suit the individual country's specific requirements and endowments.

C. Constraints to intraregional trade and investment expansion

36. In view of the skewed dispersion of FDI flows to the region, it is necessary to explain why the spread of the trade-investment nexus has not been

greater than it actually is and the factors that could, at least in part, account for the instances of failure to exploit this interlinkage. In essence, constraints to the operation of the trade-investment nexus may be grouped, from the viewpoint of applicability to corrective policy, as being either endogenous or exogenous to the prevailing economic regime and circumstances in the host country. The endogenous obstacles stem, in main, from three sources, namely, the macroeconomic environment, the foreign investment regulatory regime and inadequate infrastructural support, which are within the purview of domestic policy. The exogenous obstructions are mainly in the form of non-tariff barriers (NTBs) and product standardization requirements imposed by importing countries.

37. It is commonly held that central to host country approaches to attracting FDI on a sustained basis is the nature of the macro-policy environment within which foreign affiliated firms are expected to operate. The fact is that the more successful and dynamic developing countries of the Asia and Pacific region have moved away from active support for an import-substituting approach to industrialization towards greater involvement in establishing export-generating industries based around the realization of a genuine local comparative advantage, which, in turn, has stimulated the integration of the economy in the new evolving region-wide cross-border division of labour. Thus, trade orientation is understandably low in economies which promote import substitution, to the extent that exports are penalized, either directly or indirectly. On the other hand, open economies have tended, other things being equal, to attract trade-oriented FDI, and the juxtaposition of appropriate industrial, trade and investment policies with an efficient economic policy package has been a significant factor in explaining successful operation of the trade-investment nexus.

38. Regulations surrounding investment flows is another element that adversely affects the operation of the trade-investment nexus, since foreign investors have to sift through a variety of regulations and incentives to arrive at a decision regarding location of production facilities. Beyond its role as a source of risk capital for investment, FDI has an important role to play in development, in transferring new technology and business practice, stimulating innovation and investment in the host country through its linkage to domestic firms and securing access to international goods and capital markets. In that context, a non-distortionary incentive system (including transparent tax policies), as well as legal and regulatory reforms, are important factors in inducing accelerated inflows of FDI.

39. While availability of adequate infrastructure appears to be a requirement to facilitate foreign investment, FDI in the region has done little to build the infrastructural requirements needed for its own operations. At the same time, in certain developing countries of the region, notably India, Indonesia, the Philippines and Thailand, the capacity of seaports, telecommunications and hinterland transport has been placed under fairly severe pressure. Rapid growth of the region's trade has therefore made it necessary to improve and expand transport and communications links both between regions and within the region itself, despite significant productivity gains originating from the modernization of infrastructural services. Air transportation facilities also constitute a key factor in the development of tourism and foreign trade,

particularly non-traditional exports and perishable commodities, and is of special importance to the developing island and land-locked countries.

40. A related aspect in determining the intensity of the trade-investment nexus is the robustness of the human infrastructure in the host country. Since FDI depends heavily on skilled labour availabilities and the ability to adapt technology in a given economy, governmental support of education, research and development, and other measures spurring the development of technology is likely to have a significant influence in stimulating foreign investment. Investment in human capital is crucial in promoting the efficiency of the domestic economic sector and the absorptive capability of local firms for foreign technology and management skills. Countries with higher investment in human capital will accordingly be able to gain more from FDI, as well as attract FDI into human-capital intensive industries.

41. Non-tariff barriers (NTBs) in the Asia and Pacific region demonstrate some interesting features. First, as in the case of NTBs all over the world, NTBs in the region are also targeted disproportionately against sectors which are of export interest to developing countries; thus, an elimination or rolling back of these NTBs in the Asia and Pacific region will clearly be beneficial to the developing economies. Second, it has been observed that countries from the region face higher and more specific types of NTBs in other countries within the region as compared to exporters from outside the region; trade between developing countries within the region is therefore adversely affected because of the presence of NTBs in the developing countries themselves. Third, the developed economies of the region (Australia, Japan and New Zealand) are observed to be generally less protective than their counterparts in Europe and America, as a consequence of which they have continuously restructured their industries in line with their dynamic comparative advantage. Finally, in contrast to developing economies in the rest of the world, developing economies in the region are less protective than developed market economy countries.

42. Technical barriers to trade have also become an important issue and take the form of requirements relating to quality parameters, dimensions, safety criteria, methods of sampling, health safety and sanitary standards on imports. Effective cooperation and coordination of trade efficiency activities, including measures for standardization and quality control, should therefore be established among both the countries of the ESCAP region and their trading partners from the developed economies, with the objective of establishing generally accepted norms of quality in regional production, especially for manufactured products targeted for export markets. Besides standards and other regulations, the existing certification and laboratory accreditation systems in ESCAP member and associate member countries act as further barriers to trade. Since these systems, depending on national circumstances, are often different in a practical, economic, legal or technical sense, regional harmonization of the fundamental criteria on which they are based is also necessary for facilitating trade.

43. Lastly, in three sets of countries within Asia and the Pacific, it is the specific structural features that the economies have been endowed with, rather than those it has created by policy, which inhibit the spread of growth based on the trade-investment nexus. These are the Pacific Islands, the least developed countries and the region's especially disadvantaged economies in transition.

The Pacific Island economies and the least developed countries, even after years of development efforts, have made only limited progress in their search for sustained growth. While in part this is due to the small size of their economies, which precludes derivation of scale economies, much of the reason may also be ascribed to their narrow resource base and poor infrastructural facilities. In this context, continued official development assistance is critical, since investments to overcome infrastructural constraints will be a precondition for inducing the private investor. As for the economies in transition, structural deficiencies in their economic systems and infrastructural problems are the overwhelming constraint. Substantial official external assistance will thus be required to ease these bottlenecks, especially their limited transportation and communication availabilities. However, as the resource base of these economies in transition is generally adequate, once their structural constraints are overcome appropriate policy inducements are likely to stimulate sizeable FDI inflows.

D. Policy options for enhancing economic cooperation and development in the region

44. In assessing the range and directions of policy options available to developing countries for intensifying regional economic cooperation and promoting development, one specific fact to keep in view is that a large part of the region's general dynamism may be attributed to the complementary nature of the interrelationship between intraregional trade and investment expansion. Although autonomous impulses emanating from the trade-investment nexus have been more successful than formal arrangements in linking together the regional economies, given the constraints to the spread of this virtuous growth propellant in several developing economies of the region, measures to stimulate intraregional trade and investment expansion as vehicles for enhancing economic cooperation and development within the Asia and Pacific region also require attention.

45. The prospects for increased flows of intraregional trade and investment in the Asia and Pacific region are, at present, mixed. While the focal point of growth in world trade has definitely shifted to this region, it is clear that not all countries of the region have been able to take advantage of the export-led growth process. Structural differences, competing specializations and external payments imbalances in several of the region's developing economies will limit growth potentials. Regional groupings and increasing bilateralism outside this region will also restrict the advantages that the multilateral trading system has to offer. In this setting, regional cooperation drawing on the participative synergy of ESCAP member countries and associate member countries is one possible option for stimulating the growth process across Asia and the Pacific. Given the region's rich diversity of natural resources and production capabilities, intercountry competition can only limit the benefits from the growth process. In contrast, coordinated regional strategies based on export-led growth would encourage more efficient use of capital, expand both intraregional and interregional markets and encourage capital flows within the region.

46. In this context, there are a number of levels at which the policy effort should be directed. First, constraints to the free flow of goods, services and

investment in the region must be removed or eased. Second, information about markets, technologies and investment opportunities must be provided to decision makers and the business community, so that the spread of gains from trade and investment is not constrained. Third, foreign investment must be increasingly directed at regional and world markets, rather than host-country domestic markets, so that the balance-of-payments effects are positive. Fourth, attempts to exploit the trade-investment nexus should lead to enhanced export capacities in the domestic private sectors of host countries. Fifth, to the extent that countries in transition to regimes that exploit the trade-investment nexus are losers from the asymmetric distribution of gains from trade, such mechanisms as payments arrangements and capital flows must be devised to ensure that the change to a regime of outward-oriented growth is not subverted by balance-of-payments disequilibria. Finally, the policy effort must ensure that the specific problems of the Pacific Islands, the least developed countries and the especially disadvantaged economies in transition are accorded due attention.

47. These elements of the policy effort require not merely regional initiatives, but a range of national initiatives as well. The analysis of constraints to the operation of the trade-investment nexus in the region's developing countries suggests that the main elements of possible national initiatives are the reduction of tariffs and non-tariff barriers to the movements of goods and services at regional and subregional levels, the dismantling of investment regulations that deter foreign investors and, above all, the fashioning of a relatively stable macroeconomic environment conducive to foreign investment. Once that framework is in place, attention can be diverted to resolving other constraints, including the infrastructural bottlenecks and obstacles created by technical barriers to trade.

48. Increasing intraregional economic linkages in trade and investment underline the need for greater macroeconomic consultation, cooperation and synchronization in Asia and the Pacific, especially on monetary, fiscal and external commercial issues. As most of the region's developing economies are unilaterally liberalizing their production structures to render their economies more efficient and competitive, any attempt to promote regional economic cooperation should ensure that the process retains continuity. In fact, cooperative action should be used to speed up the external sector liberalization process in the region, so that unfettered operation of the trade-investment nexus is made possible.

49. The process of a greater trade orientation in the development strategies of the economies of the region warrants that cooperative action in the region should accord high importance to the lowering of barriers to trade, as well as to the strengthening of supportive institutions. Thus, within the region, less severe border controls in the form of reduced tariff levels would induce trade expansion and provide the scope for eliciting economies of scale in production as well as increased process efficiencies. As regards non-tariff barriers, which will increasingly become the major impediment to trade expansion consequent to progressive decline in tariff rates, the three areas where cooperative action is likely to generate significant results in terms of facilitating increased intraregional trade are simplification of documentation requirements, the phasing out of quantitative restrictions and an understanding on technical barriers to trade. While some countries have adopted trade facilitation measures, concerted action to establish a common set of

documentation and harmonized customs procedures across the region has yet to be initiated. For non-tariff barriers, a regional schedule for the gradual removal of quotas and quantitative restrictions may be compiled and coordinated. On the issue of technical barriers to trade the cooperative endeavour should be focused on harmonization and standardization of differing national requirements, as well as the reciprocal recognition of tests, inspection procedures and certification of products.

50. Since the nexus between foreign investment and trade expansion in the region has been broadly established, industrial cooperation should be expanded and linked more closely with trade liberalization efforts. In this regard, the regional attempt to foster industrial cooperation could initially take the form of consultations between interested member Governments for harmonization of investment incentives and regulations, although identification and dismantling of barriers to FDI will have to be the first step. In this process the emergence of new growth triangles in the region offers distinct possibilities for stimulating intraregional trade and investment; encouragement at the policy level for such pockets of growth may thus be desirable. Moreover, along with the establishment of a regional investment information and promotion service (RIIPS) for information dissemination and provision of technical services, close collaboration between RIIPS and the national investment boards and chambers of commerce and industry in the region will also be essential.

51. Another major policy concern for the region is that with higher levels of intraregional trade and investment, traditional small and medium-sized enterprises, which have made a significant contribution to trade and output growth in Asia and the Pacific, would face more intense competition, because inflows of investment from transnational corporations in similar product lines bring with them superior technology, better management capability and access to more rigorous marketing channels. At the same time, increased trade may introduce competing products. In this context, cooperative action could also be addressed to a wider dispersion of the technological advancement of the region in the industrial sector, especially to the small and medium-sized enterprises.

52. The move towards trade liberalization in Asia and the Pacific will also require the coordination of efforts for strengthening the regional transportation and communications infrastructure. It would imply regional cooperation for the removal of hindrances in the movement of goods and people within a country as well as across its borders. The regional cooperation programme should therefore address the important areas of infrastructure development in a coordinated manner to facilitate the movements of goods by road, rail and sea; the harmonization of port charges; and measures for facilitating cross-border movements of traffic. The basic tenets should be to reduce journey-time in transportation, minimize restrictive regulations and improve the availability and quality of infrastructural services.

53. While market forces and structural change in the region's developing economies have been the main propellants for expanding intraregional trade and investment in Asia and the Pacific, policies and institutions are required to exploit the opportunities which these generate. The study therefore suggests some economic cooperation initiatives in Asia and the Pacific that are intended to strengthen the operation of the trade-investment nexus in the region and ensure the spread of its beneficial impact to the less dynamic developing

economies, as well as endorse the validity of the action programme considered by the Steering Group of the ESCAP Committee for Regional Economic Cooperation. 2/ These measures include increased regional trade information dissemination; establishment of a regional trade-related research institutions network; a regional programme on quality assurance; regional cooperation in trade in services; establishment of a regional investment information and promotion service (RIIPS); a programme for development of small- and medium-scale enterprises; harmonization of customs procedures; human resource development; a programme for special assistance to the economies in transition; and specific assistance to the least developed countries.

54. In conclusion, it is reiterated that although the focal point of expansion in world trade and economic growth has shifted to Asia and the Pacific, not all countries of the region have been able to take advantage of these favourable developments. In order to meet this challenge, regional economic cooperation is the imperative, both to sustain growth in the region and to ensure the operation of the trade-investment nexus along with a wider spread of its benefits across the developing ESCAP region. This would in turn require Governments, concerned United Nations agencies and related organizations to work jointly on a blueprint envisaging benefits to both the fast- and slow-growing developing countries of the region and involving an agenda for action that includes trade, capital and technology flows along with market reforms.

Notes

1/ Refers to six of the successor States of the former Soviet Union: Azerbaijan, Kazakhstan, Kyrgystan, Tajikistan, Turkmenistan and Uzbekistan.

2/ "An action programme for regional economic cooperation in trade and investment: Selected issues and policy options for economic development in Asia and the Pacific" (E/ESCAP/SREC/1, November 1992).